

**CITY OF ONAWAY
ONAWAY, MICHIGAN**

Financial Statements
For the Fiscal Year Ended
March 31, 2008

Prepared By:
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CITY OF ONAWAY
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INDEPENDENT AUDITOR'S REPORT

December 24, 2008

Honorable Mayor and Members
of the City Commission
City of Onaway
Onaway, Michigan

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **City of Onaway, Onaway, Michigan**, as of and for the year ended March 31, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the **City of Onaway's** management. My responsibility is to express opinions on these financial statements based on my audit.

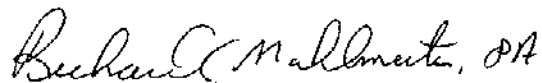
I conducted the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **City of Onaway, Onaway, Michigan** as of March 31, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated December 24, 2007, on my consideration of the *City of Onaway's* internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of my audit.

The management's discussion and analysis and budgetary comparison information on pages 1 through 7 and 33 through 35, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the *City of Onaway's* basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplementary information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, I express no opinion on it.



Richard E. Mahlmeister, CPA

Richard E. Mahlmeister, CPA, PC

CITY OF ONAWAY

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended March 31, 2008. Please read it in conjunction with the financial statements, which immediately follow this section.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements.

FINANCIAL HIGHLIGHTS

- The City's combined net assets increased \$578,472. Separately, governmental activities decreased \$57,272 while business-type net assets increased \$635,744. Decreases to governmental activities are due to the spending down of Major and Local Street Funds, which had grown while a sewer system was being constructed. A pair of the worst sections of street was repaired during this fiscal year. Also, donations that had accumulated in the Courthouse Construction Fund were invested in the Courthouse/City hall. Increases in business-type activities are primarily due to significant federal grant funds used to complete the sewer system.
- The total cost of basic programs, excluding capital outlay and debt principal payments, were \$666,896 for governmental activities and \$573,895 for business-type activities.
- Total revenues were \$644,624 for governmental activities (including \$60,471 for charges for services, \$8,200 for operating grants and contributions \$15,603 of capital grants and contributions and \$560,350 for general revenues) and \$1,174,639 for business-type activities (including \$428,985 for charges for services, \$3,392 for operating grants and contributions, \$739,306 for capital grants and contributions, and \$2,956 for general revenues).
- The City repaid \$44,000 of long-term debt during the fiscal year.
- At the end of the fiscal year, the General Fund had \$324,492 of unreserved fund balance available for future expenditures. This represents approximately 70% of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: 1) management's discussion and analysis; 2) the basic financial statements; and 3) notes to the financial statements. This report also contains required and other supplementary information. The basic financial statements include two different kinds of statements that present different views of the City.

Government-wide financial statements. The first two statements are government-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities and business-type activities.

CITY OF ONAWAY

MANAGEMENT'S DISCUSSION AND ANALYSIS

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

Both the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include legislative, general government, public safety, public works and recreation and culture. The business-type activities include water and sewer operations.

Fund financial statements. The fund financial statements provide more detailed information about the City's funds, focusing on significant (major) funds, not the City as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants, they may also be created by the City Commission. Funds are established to account for funding and spending of specific financial resources and to show proper expenditure of those resources.

The City has the following types of funds:

Governmental Funds

Most of the City's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the City's government-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them.

The City maintains five individual governmental funds; General Fund, Major and Local Street Funds, Courthouse Construction Fund and Courthouse Debt Fund. All are considered major funds, with the exception of the Courthouse Debt Fund, which is considered a nonmajor fund. The City's funds are financed primarily by both property tax revenue and state shared revenues. A budgetary comparison statement has been provided for these general and special revenue funds to demonstrate compliance with the budgets.

Proprietary Funds

The City maintains two different proprietary funds, which are reported as business-type activities in the government-wide financial statements. The City's water and sewer enterprise funds are both considered major funds. The City also uses an Internal Service Fund to account for its equipment operations. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

CITY OF ONAWAY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiduciary Funds

The City acts as a trustee or fiduciary and is responsible for insuring that the assets of these activities are collected and disbursed to the respective entities to which the funds belong. The City maintains these funds and is responsible for insuring that the assets of these activities are spent for their intended purpose and at the direction of those individuals/organizations to which the funds belongs. These activities do not appear in the City's government-wide financial statements since the assets do not belong to the City. The City maintains a Tax Collection Fund in this category.

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$1,731,579 for the governmental activities and \$10,144,023 for the business-type assets, as of March 31, 2008.

A large portion of the City's net assets are invested in capital assets, less any debt to acquire those assets. The City uses those assets to provide services to our citizens; consequently these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from future operations, since the capital assets themselves cannot be used to liquidate these liabilities.

The comparison of net assets of governmental and business-type activities from year to year serves to measure a government's financial position:

City of Onaway Net Assets March 31,

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL	
	2008	2007	2008	2007	2008	2007
Current assets	\$570,046	\$599,201	\$316,049	\$254,557	\$886,095	\$853,758
Other assets	10,255	10,740	43,030	45,208	53,285	55,948
Capital assets (net)	1,443,457	1,465,813	12,422,760	11,889,883	13,866,217	13,355,696
Total assets	<u>2,023,758</u>	<u>2,075,754</u>	<u>12,781,839</u>	<u>12,189,648</u>	<u>14,805,597</u>	<u>14,265,402</u>
Current liabilities	9,835	24,168	117,316	110,369	127,151	134,537
Long-term liabilities	272,344	262,735	2,520,500	2,571,000	2,792,844	2,833,735
Total Liabilities	<u>282,179</u>	<u>286,903</u>	<u>2,637,816</u>	<u>2,681,369</u>	<u>2,919,995</u>	<u>2,968,272</u>
Net assets:						
Invested in capital assets, net of related debt	1,230,457	1,246,813	9,851,760	9,280,883	11,082,217	10,527,696
Restricted	15,941	15,129	28,432	27,660	44,373	42,789
Unrestricted	<u>485,181</u>	<u>526,909</u>	<u>263,831</u>	<u>199,736</u>	<u>749,012</u>	<u>726,645</u>
	<u>\$1,731,579</u>	<u>\$1,788,851</u>	<u>\$10,144,023</u>	<u>\$9,508,279</u>	<u>\$11,875,602</u>	<u>\$11,297,130</u>

CITY OF ONAWAY

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)

The most significant portion of the City's Net Assets is the investment in capital assets (e.g. land, buildings, equipment and water and sewer systems), less any related debt that is outstanding that the City used to acquire or construct the asset. The City has \$749,012 in unrestricted Net Assets. These assets represent resources that are available for appropriation, but are limited by policies regarding their use.

The following table summarizes the results of the changes in Net Assets of the City:

<p align="center">City of Onaway Change in Net Assets March 31,</p>						
	GOVERNMENTAL		BUSINESS-TYPE		TOTAL	
	ACTIVITIES		ACTIVITIES			
	2008	2007	2008	2007	2008	2007
REVENUES:						
Program revenues:						
Charges for services	\$60,471	\$61,296	\$428,985	\$335,120	\$489,456	\$396,416
Operating grants and contributions	8,200	6,700	3,392	70,217	11,592	76,917
Capital grants and contributions	15,603	141,568	739,306	2,154,752	754,909	2,296,320
General revenues:						
Property taxes	295,441	297,005	1,167	937	296,608	297,942
State-shared revenues	221,293	227,688	-	-	221,293	227,688
Interest income	4,220	4,374	1,789	1,338	6,009	5,712
Gain on sale of capital assets	34,276	-	-	-	-	125,100
Other	5,120	4,455	-	-	5,120	4,455
Total Revenues	<u>644,624</u>	<u>743,086</u>	<u>1,174,639</u>	<u>2,562,364</u>	<u>1,784,987</u>	<u>3,430,550</u>
EXPENSES:						
Legislative	19,636	15,301	-	-	19,636	15,301
General government	277,429	263,327	-	-	277,429	263,327
Public safety	104,128	107,275	-	-	104,128	107,275
Public works	230,399	172,382	-	-	230,399	172,382
Recreation and culture	25,237	19,011	-	-	25,237	19,011
Interest and fees	10,067	8,928	-	-	10,067	8,928
Sewer expenses	-	-	433,375	419,373	433,375	419,373
Water expenses	-	-	140,520	163,613	140,520	163,613
Total Expenses	<u>666,896</u>	<u>586,224</u>	<u>573,895</u>	<u>582,986</u>	<u>1,240,791</u>	<u>1,169,210</u>
Transfers	<u>(35,000)</u>	<u>(49,000)</u>	<u>35,000</u>	<u>49,000</u>	<u>-</u>	<u>-</u>
Net assets:						
Increase in Net Assets	(57,272)	107,862	635,744	2,028,378	544,196	2,261,340
Beginning Net Assets	1,788,851	1,680,989	9,508,279	7,479,901	11,297,130	9,160,890
Ending Net Assets	<u>\$1,731,579</u>	<u>\$1,788,851</u>	<u>\$10,144,023</u>	<u>\$9,508,279</u>	<u>\$11,875,602</u>	<u>\$11,422,230</u>

CITY OF ONAWAY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the City. General Fund balance increased \$66,116, from \$316,379 on March 31, 2007 to \$382,495 on March 31, 2008, despite transferring \$35,000 to the Sewer Fund and \$5,000 to the Local Street Fund. The transfer to the Sewer Fund was used to offset sewer operational costs, allowing for sewer revenue to pay federal debt, as customers continued to be connected to the system during the fiscal year. The remaining transfers were to supplement revenues needed for operations during the fiscal year. The City continues to focus on improving its cash flow in the General Fund increasing unreserved cash \$55,306 from the prior year, bringing the unreserved cash balance to \$251,607. Of that increase, \$28,500 was generated through the sale of City property. Those funds will be invested in a new police department building.

The City's Major Street Fund balance decreased \$55,137, from \$141,527 on March 31, 2007 to \$86,390 on March 31, 2008, while the Local Street Fund balance decreased \$31,020, from \$36,269 on March 31, 2007 to \$5,249 on March 31, 2008. These funds had accumulated over the course of the past six years, during the construction of a sewer system, and were spent repairing a pair of the worst sections of street during the fiscal year.

The Courthouse Construction Fund decreased \$17,901, from \$84,039 on March 31, 2007 to \$66,138 on March 31, 2008. These are donations that, in conjunction with federal grant dollars, were used to pave the parking lot, paint exterior woodwork, and install lightning protection at the Courthouse/City Hall during the fiscal year.

The Courthouse Debt Fund increased \$812, from \$15,129 on March 31, 2007 to \$15,941 on March 31, 2008. In a prior year, voters authorized the City to borrow \$150,000 for the restoration of the historic Onaway Courthouse. These bonds will be repaid over 30 years. This is the third fourth the City has had the courthouse debt fund. The fund balance is for the following fiscal year's payment. A total of \$142,000 in principal payments remained as of March 31, 2008.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The Sewer Fund's net assets increased \$626,207, from \$8,722,933 on March 31, 2007 to \$9,349,140 on March 31, 2008. Much of this increase is due to federal grants received for the construction of capital assets. Though its new wastewater treatment plant was complete and operational in 2007-08, the City completed construction of its sewer collection system during the fiscal year. Total construction costs of the sewer system were approximately \$13.5 million, of which \$11 million was funded through state and federal grants, with the remainder being bonded indebtedness. While the debt is paid with system-generated revenue, some of the operational costs are currently being paid with General Fund monies. This has been the case during construction and, to keep rates down, will continue to be the case until the first debt is paid off

CITY OF ONAWAY

MANAGEMENT'S DISCUSSION AND ANALYSIS

and certain permit requirements are met, reducing sewer operational expenses, eliminating need for the transfer. The General Fund contributed \$35,000 to the Sewer Fund during the fiscal year.

The Water Fund's net assets increased \$9,537, from \$785,346 on March 31, 2007, to \$794,883 on March 31, 2008. Operational expenses were lower during this fiscal year than preceding years, as the water meter installation project was almost complete before the year started, allowing the City to increase its cash balance. These funds will be spent to improve the water system in coming years.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City Commission reviews its expenditures and compares them to the adopted budget to determine if any amendments to the original budget need to be made. During the year, amendments were made to the original adopted budget, though none of those were significant in nature, with the exception of the expense of providing winter maintenance in both street funds and to city properties, including alleys, which was significantly greater than in the past, due to the large amount of snow that fell during the fiscal year. The Motor Vehicle Fund, which receives revenue when the plow trucks are used, was able to contribute \$20,000 to the General Fund, which in turn contributed \$5,000 to the Local Street Fund, to help with these increased expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

At March 31, 2008 the City had \$12,621,299 (net of accumulated depreciation) in a broad range of capital assets, including land, buildings, equipment, courthouse, sewer system and the water system. The most significant addition to City's capital assets was the completion of the sewer collection system, financed during the fiscal year with \$739,306 in grant funds from USDA. We also paved the parking lot, painted and installed lightning protection on the Courthouse/City Hall, financed partially by \$14,720 in grant funds from USDA. Please note that additional information can be found on the City's capital assets in the accompanying notes to the financial statements of this report.

As of March 31, 2008, the City had total long-term debt outstanding of \$2,784,000. The City has reduced previously incurred debt by \$44,000, by making scheduled payments.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

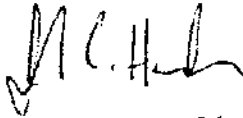
The City assumed an increase in property tax revenue of three percent, based on past experience of minimal growth. The City assumed that revenue sharing from the state would remain stagnant based on state budget projections. The City expects to contribute General Fund dollars to its sewer operations to keep rates down in the short-term. The City expects to continue spending its Major and Local Street Funds on street reconstruction and resurfacing projects that had been put on hold until the conclusion of sewer construction. The City expects to improve, and add an addition to, one of its well houses, using existing water funds. The City anticipates doing further work on the City Hall/Courthouse, using grant funds and donations on hand. The City anticipates constructing fuel tanks at its DPW garage. The City plans to construct a new police building, using federal grant dollars and proceeds from the sale of two City properties. The City anticipates purchasing a new or used pick-up truck for its DPW. Water and sewer rates will not increase, as most still are getting used to the new sewer charge.

CITY OF ONAWAY

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONTACTING CITY MANAGEMENT

This financial report is designed to provide our citizens, creditors, investors, and customers with a general overview of the City's finances and to demonstrate the City's accountability for revenues it receives. If you have any questions concerning this report, or need additional information, please contact the City Manager at 989-733-8313 (City Hall).

A handwritten signature in black ink, appearing to read 'J.C. Hefe', with a stylized flourish at the end.

Joseph C. Hefe, City Manager
City of Onaway

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF ONAWAY
STATEMENT OF NET ASSETS
MARCH 31, 2008

PRIMARY GOVERNMENT

ASSETS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS
Cash and cash equivalents	\$471,316	\$181,897	\$653,213
Cash and cash equivalents, restricted	-	55,832	55,832
Restricted investments	-	16,500	16,500
Receivables:			
Property taxes	62,820	-	62,820
Accounts	4,906	61,820	66,726
From other governments	30,765	-	30,765
Due from fiduciary fund	239	-	239
Financing costs (net of accumulated amortization)	10,255	43,030	53,285
Capital assets (net of accumulated depreciation)	1,443,457	12,422,760	13,866,217
<u>TOTAL ASSETS</u>	<u>2,023,758</u>	<u>12,781,839</u>	<u>14,805,597</u>
 LIABILITIES			
Accounts payable	10,735	11,480	22,215
Accrued interest	2,020	55,336	57,356
Deferred revenue	80	-	80
Long-term liabilities:			
Due within one year	7,000	50,500	57,500
Due in more than one year	272,344	2,520,500	2,792,844
<u>TOTAL LIABILITIES</u>	<u>292,179</u>	<u>2,637,816</u>	<u>2,929,995</u>
 NET ASSETS			
Invested in capital assets, net of related debt	1,230,457	9,851,760	11,082,217
Restricted for debt service	15,941	28,432	44,373
Unrestricted	485,181	263,831	749,012
<u>TOTAL NET ASSETS</u>	<u>\$1,731,579</u>	<u>\$10,144,023</u>	<u>\$11,875,602</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF ONAWAY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2008**

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary government			
Governmental activities			
Legislative	\$19,636	\$ -	\$ -
General government	277,429	12,320	8,200
Public safety	104,128	1,490	-
Public works	230,399	46,661	-
Recreation and culture	25,237	-	-
Interest and fees on long-term debt	10,067	-	-
Total governmental activities	666,896	60,471	8,200
Business-type activities			
Sewer	433,375	280,940	3,392
Water	140,520	148,045	-
Total business-type activities	573,895	428,985	3,392
Total primary government	\$1,240,791	\$489,456	\$11,592

General Revenues

Property taxes
State-shared revenues
Unrestricted interest income
Gain on sale of capital assets
Other
Transfers - internal activities

Total general revenues and transfers

Change in net assets

Net assets, beginning of year, as restated (Note 14)

Net assets, end of year

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and changes in Net Assets			
Primary Government			
Capital Grants and Contributions	Governmental Activities	Business-Type Activities	TOTAL
\$ -	(\$19,636)	\$ -	(\$19,636)
-	(256,909)	-	(256,909)
-	(102,638)	-	(102,638)
15,220	(168,518)	-	(168,518)
383	(24,854)	-	(24,854)
-	(10,067)	-	(10,067)
15,603	(582,622)	-	(582,622)
739,306	-	590,263	590,263
-	-	7,525	7,525
739,306	-	597,788	597,788
\$754,909	(582,622)	597,788	15,166
	295,441	1,167	296,608
	221,293	-	221,293
	4,220	1,789	6,009
	34,276	-	34,276
	5,120	-	5,120
	(35,000)	35,000	-
	525,350	37,956	563,306
	(57,272)	635,744	578,472
	1,788,851	9,508,279	11,297,130
	\$1,731,579	\$10,144,023	\$11,875,602

FUND FINANCIAL STATEMENTS

CITY OF ONAWAY
BALANCE SHEET - GOVERNMENTAL FUNDS
MARCH 31, 2008

<u>ASSETS</u>	<u>GENERAL FUND</u>	<u>MAJOR STREET FUND</u>	<u>LOCAL STREET FUND</u>
Cash and cash equivalents	\$309,610	\$76,300	\$187
Taxes receivable	60,807	-	-
Accounts receivable	4,906	-	-
Due from other funds	239	-	-
Receivables from other governments	15,307	10,244	5,214
	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	\$390,869	\$86,544	\$5,401
	<hr/>	<hr/>	<hr/>
 <u>LIABILITIES AND FUND BALANCES</u>			
LIABILITIES			
Accounts payable	\$8,374	\$154	\$152
Deferred revenue	-	-	-
	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES	8,374	154	152
 FUND BALANCES			
Reserved for:			
Courthouse renovation	48,277	-	-
Recreation equipment	2,994	-	-
Police department	6,732	-	-
Debt service	-	-	-
Unreserved:			
Designated for:			
Subsequent years' expenditures	56,731	53,552	-
Undesignated	267,761	32,838	5,249
	<hr/>	<hr/>	<hr/>
TOTAL FUND BALANCES	382,495	86,390	5,249
	<hr/>	<hr/>	<hr/>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	\$390,869	\$86,544	\$5,401
	<hr/>	<hr/>	<hr/>

The accompanying notes are an integral part of these financial statements.

COURTHOUSE CONSTRUCTION FUND	NON-MAJOR FUND		TOTAL GOVERNMENTAL FUNDS
	COURTHOUSE DEBT FUND		
\$66,218	\$13,928		\$466,243
-	2,013		62,820
-	-		4,906
-	-		239
-	-		30,765
<u>\$66,218</u>	<u>\$15,941</u>		<u>\$564,973</u>

\$ -	\$ -		\$8,680
80	-		80
80	-		8,760
-	-		48,277
-	-		2,994
-	-		6,732
-	15,941		15,941
65,000	-		175,283
1,138	-		306,986
66,138	15,941		556,213
<u>\$66,218</u>	<u>\$15,941</u>		<u>\$564,973</u>

CITY OF ONAWAY
BALANCE SHEET - GOVERNMENTAL FUNDS
MARCH 31, 2008

Reconciliation of fund balances on the balance sheets for governmental activities
to the statement of net assets

FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$556,213
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Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources and,
therefore, are not reported in the funds.

Add: capital assets	1,345,758
Subtract: accumulated depreciation	(100,840)

Deferred costs used in governmental activities are not financial resources and,
therefore, are not reported in the funds.

Add: financing costs	8,338
Subtract: accumulated amortization	(834)

Internal service funds are used by management to charge the costs of certain activities,
such as equipment costs, to individual funds. The assets and liabilities of the internal
fund are included in governmental activities in the statement of net assets.

132,561

Certain liabilities are not due and payable in the current period, and therefore
are not reported as liabilities in the funds, and consist of:

Subtract: bonds and installment contracts payable	(142,000)
Subtract: compensated absences	(66,344)
Subtract: accrued interest on long-term liabilities	(1,273)

NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$1,731,579</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF ONAWAY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2008

	GENERAL FUND	MAJOR STREET FUND	LOCAL STREET FUND
REVENUES			
Taxes	\$286,454	\$ -	\$ -
Federal revenues	-	-	-
State-shared revenues	131,982	58,074	31,237
Licenses and permits	1,000	-	-
Charges for services	45,661	-	-
Fines and forfeits	1,490	-	-
Interest income	1,380	860	134
Rents	12,320	-	-
Donations	8,583	-	-
Sale of capital assets	34,276	-	-
Other	5,120	-	-
TOTAL REVENUES	528,266	58,934	31,371
EXPENDITURES			
Current:			
Legislative	19,636	-	-
General government	247,327	-	-
Public safety	98,381	-	-
Public works	50,572	84,900	96,562
Recreation and culture	26,234	-	-
Capital outlay	-	-	-
Debt service:			
Principal	-	-	-
Interest and fees	-	-	-
TOTAL EXPENDITURES	442,150	84,900	96,562
REVENUES OVER (UNDER) EXPENDITURES	86,116	(25,966)	(65,191)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	20,000	-	34,171
Operating transfers (out)	(40,000)	(29,171)	-
TOTAL OTHER FINANCING SOURCES (USES)	(20,000)	(29,171)	34,171
NET CHANGES IN FUND BALANCES	66,116	(55,137)	(31,020)
FUND BALANCES, BEGINNING OF YEAR,	316,379	141,527	36,269
FUND BALANCES, END OF YEAR	\$382,495	\$86,390	\$5,249

The accompanying notes are an integral part of these financial statements.

COURTHOUSE CONSTRUCTION FUND	NON-MAJOR FUND COURTHOUSE DEBT FUND	TOTAL GOVERNMENTAL FUNDS
\$ -	\$8,987	\$295,441
14,720	-	14,720
-	-	221,293
-	-	1,000
-	-	45,661
-	-	1,490
1,658	81	4,113
-	-	12,320
500	-	9,083
-	-	34,276
-	-	5,120
<u>16,878</u>	<u>9,068</u>	<u>644,517</u>
-	-	19,636
-	-	247,327
-	-	98,381
190	-	232,224
-	-	26,234
34,589	-	34,589
-	2,000	2,000
-	6,256	6,256
<u>34,779</u>	<u>8,256</u>	<u>666,647</u>
(17,901)	812	(22,130)
-	-	54,171
-	-	(69,171)
-	-	(15,000)
<u>(17,901)</u>	<u>812</u>	<u>(37,130)</u>
<u>84,039</u>	<u>15,129</u>	<u>593,343</u>
<u>\$66,138</u>	<u>\$15,941</u>	<u>\$556,213</u>

CITY OF ONAWAY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2008

Reconciliation of statement of revenues, expenditures and changes in fund balances of governmental funds to statement of activities

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS (37,130)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, those costs are allocated over their useful lives as annual depreciation expense in the statement of activities.

Add: capital outlay capitalized during the current year. 34,589
Subtract: depreciation expense (39,302)

Governmental funds report deferred costs, such as financing costs, as expenditures. However, those costs are allocated over the related debt repayment period as annual amortization expense in the statement of activities.

Subtract: amortization expense (278)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities 2,000

Some expenses in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Add: decrease in the accrual of interest on long-term liabilities. (426)
Subtract: increase in the accrual of compensated absences. (7,961)

Internal service funds are used by management to charge the costs of certain activities, such as equipment costs, to individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.

Subtract: change in net assets from governmental activities accounted for in the internal service fund. (8,764)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES (\$57,272)

The accompanying notes are an integral part of these financial statements.

**CITY OF ONAWAY
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
MARCH 31, 2008**

<u>ASSETS</u>	SEWER FUND	WATER FUND	TOTAL	GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND
CURRENT ASSETS:				
Cash and cash equivalents	\$165,440	\$16,457	\$181,897	\$5,073
Cash and cash equivalents, restricted	43,980	11,932	55,832	-
Restricted investments	-	16,500	16,500	-
Accounts receivable	42,149	19,671	61,820	-
TOTAL CURRENT ASSETS	251,489	64,560	316,049	5,073
NONCURRENT ASSETS:				
Financing costs (net of amortization)	43,030	-	43,030	2,751
CAPITAL ASSETS:				
Land and improvements	13,960	6,614	20,574	-
Water system	-	1,324,528	1,324,528	-
Sewer system	11,758,267	-	11,758,267	-
Machinery and equipment	214,956	9,199	224,155	308,302
Less: accumulated depreciation	(367,746)	(537,018)	(904,764)	(109,763)
NET CAPITAL ASSETS	11,619,437	803,323	12,422,760	198,539
TOTAL NONCURRENT ASSETS	11,662,467	803,323	12,465,790	201,290
TOTAL ASSETS	11,913,956	867,883	12,781,839	206,363
<u>LIABILITIES</u>				
CURRENT LIABILITIES:				
Accounts payable	9,355	2,125	11,480	2,855
Accrued interest	54,461	875	55,336	747
Bonds payable	37,500	13,000	50,500	-
Installment note payable	-	-	-	4,000
TOTAL CURRENT LIABILITIES	101,316	16,000	117,316	6,802
LONG-TERM LIABILITIES:				
Bonds payable	2,463,500	57,000	2,520,500	-
Installment notes payable	-	-	-	67,000
TOTAL LONG-TERM LIABILITIES	2,463,500	57,000	2,520,500	67,000
TOTAL LIABILITIES	2,564,816	73,000	2,637,816	73,802
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	9,118,437	733,323	9,851,760	127,539
Restricted for debt service	-	28,432	28,432	-
Unrestricted	230,703	33,128	263,831	5,022
TOTAL NET ASSETS	\$9,349,140	\$794,883	\$10,144,023	\$132,561

The accompanying notes are an integral part of these financial statements.

CITY OF ONAWAY
PROPRIETARY FUNDS
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED MARCH 31, 2008

	SEWER FUND	WATER FUND	TOTAL	GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND
OPERATING REVENUES				
Charges for services	\$280,940	\$147,843	\$428,783	\$79,796
Other revenue	-	202	202	873
TOTAL OPERATING REVENUES	280,940	148,045	428,985	80,669
OPERATING EXPENSES				
Salaries and wages	25,188	40,477	65,665	8,573
Fringe benefits	4,003	4,963	8,966	4,493
Gasoline	-	-	-	10,756
Supplies	23,207	13,309	36,516	9,866
Contracted service	32,651	5,414	38,065	2,700
Communication	5,761	819	6,580	1,515
Transportation	1,044	147	1,191	170
Utilities	36,372	24,324	60,696	6,988
Education and training	513	180	693	-
Insurance	1,355	1,812	3,167	3,522
Licenses and permits	1,950	-	1,950	-
Dues and memberships	-	1,234	1,234	-
Equipment rentals	4,900	19,318	24,218	-
Depreciation and amortization	184,116	24,573	208,689	17,850
TOTAL OPERATING EXPENSES	321,060	136,570	457,630	66,433
OPERATING INCOME (LOSS)	(40,120)	11,475	(28,645)	14,236
NON-OPERATING REVENUES (EXPENSES)				
Interest income	944	845	1,789	107
Special assessments	-	1,167	1,167	-
Federal revenue	739,306	-	739,306	-
Other grant revenue	3,392	-	3,392	-
Other contracted service	(3,392)	-	(3,392)	-
Interest expense	(108,923)	(3,950)	(112,873)	(3,107)
TOTAL NON-OPERATING INCOME (EXPENSES) - NET	631,327	(1,938)	629,389	(3,000)
INCOME (LOSS) BEFORE TRANSFERS	591,207	9,537	600,744	11,236
TRANSFER IN (OUT)	35,000	-	35,000	(20,000)
CHANGE IN NET ASSETS	626,207	9,537	635,744	(8,764)
NET ASSETS, BEGINNING OF YEAR	8,722,933	785,346	9,508,279	141,325
NET ASSETS, END OF YEAR	\$9,349,140	\$794,883	\$10,144,023	\$132,561

The accompanying notes are an integral part of these financial statements.

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2008**

	SEWER FUND	WATER FUND	TOTAL	GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$274,304	\$144,376	\$418,680	\$ -
Receipts from other funds	-	-	-	79,796
Other receipts	-	202	202	873
Cash paid for employees wages and benefits	(29,231)	(45,440)	(74,671)	(13,066)
Cash paid for interfund services	(4,900)	(19,318)	(24,218)	-
Cash paid for other operating expenses	(100,006)	(48,539)	(148,545)	(35,536)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	140,167	31,281	171,448	32,067
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Special assessments	-	1,167	1,167	-
Federal revenue	739,200	-	739,200	-
Acquisition and construction of capital assets	(739,388)	-	(739,388)	-
Principal and interest paid on capital debt	(135,563)	(16,100)	(151,663)	(7,105)
NET CASH PROVIDED (USED) IN CAPITAL AND RELATED FINANCING ACTIVITIES	(135,751)	(14,933)	(150,684)	(7,105)
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES				
Other grant revenue	3,699	-	3,699	-
Other non-capital contracted services	(9,556)	-	(9,556)	-
Transfer in (out)	35,000	-	35,000	(20,000)
NET CASH PROVIDED (USED) IN CAPITAL AND RELATED FINANCING ACTIVITIES	29,143	-	29,143	(20,000)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income	944	845	1,789	107
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	34,503	17,193	51,696	5,069
CASH AND CASH EQUIVALENTS:				
BEGINNING OF YEAR	174,837	11,196	186,033	4
END OF YEAR	\$209,340	\$28,389	\$237,729	\$5,073
BALANCE SHEET CLASSIFICATION OF CASH AND CASH EQUIVALENTS:				
Cash and cash equivalents	\$165,440	\$16,457	\$181,897	\$5,073
Restricted cash and cash equivalents	43,900	11,932	55,832	-
TOTAL	\$209,340	\$28,389	\$237,729	\$5,073
RECONCILIATION OF OPERATING LOSS TO NET CASH FROM OPERATING ACTIVITIES				
Operating income (loss)	(\$40,120)	\$11,475	(\$28,645)	\$14,236
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation and amortization	184,116	24,573	208,689	17,850
Changes in assets and liabilities:				
Receivables	(6,636)	(3,467)	(10,103)	-
Accounts payable	2,847	(1,300)	1,547	(19)
Accrued expenses	(40)	-	(40)	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$140,167	\$31,281	\$171,448	\$32,067

The accompanying notes are an integral part of these financial statements.

**CITY OF ONAWAY
STATEMENT OF FIDUCIARY NET ASSETS
TAX COLLECTION FUND
MARCH 31, 2008**

	<u>AGENCY FUND</u>
<u>ASSETS</u>	
Cash and cash equivalents	<u>\$239</u>
<u>LIABILITIES</u>	
Due to other funds	<u>239</u>
<u>NET ASSETS</u>	
Fiduciary Net Assets	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

CITY OF ONAWAY

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Onaway, Onaway, Michigan conform to generally accepted accounting principles as applicable to governments. The following is a summary of the most significant policies.

THE REPORTING ENTITY

In accordance with the provisions of the Governmental Accounting Standards Board's Statement No. 14, "The Financial Reporting Entity", the financial statements of the reporting entity includes those of the City and any component units. The basic criterion for including a governmental department, agency, institution, commission, public authority or other governmental organization in a governmental unit's financial report is the exercise of oversight responsibility over such agencies by the governmental unit's elected officials. The manifestations of such oversight responsibility are financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. The City has determined that no entities should be consolidated into its financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. The statement of activities demonstrates the degree to which direct expenses of a given function or segment offset by program revenues.

Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items are not properly included among program revenues are reported instead as general revenue.

CITY OF ONAWAY

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. GASB Statement No. 34 sets forth minimum criteria, based on percentage of the assets, liabilities, revenues or expenditures/expenses of the governmental and proprietary funds, for the determination of major funds.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Property taxes, licenses and interest associated with the current fiscal period are all considered susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements and shared revenues are recorded at time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The proprietary funds use the accrual basis of accounting and are accounted for on a cost-of-service or "capital maintenance" measurement focus. Under the capital maintenance measurement focus, all assets and liabilities associated with the fund's activities are included on its balance sheet. Under the accrual basis, revenues are recognized when earned and expenses are recognized when they are incurred. Principal operating revenues for proprietary funds are charges to customers for sales or services.

CITY OF ONAWAY

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (CONTINUED)

Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

Fund Financial Statements

The fund financial statements provide information about the City's funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Separate statements for each fund category – governmental, proprietary and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. The City considers all of its funds to be major funds; therefore, there are no nonmajor funds.

The City reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. Financing is provided primarily by property taxes and state shared revenues.

Major Street Fund - This special revenue fund accounts for revenues from motor fuel taxes, which are restricted by state statute for major street and highway purposes.

Local Street Fund - This special revenue fund accounts for revenues from motor fuel taxes and a tax, when levied, which are restricted by state statute for local street purposes.

CITY OF ONAWAY

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements (Continued)

Courthouse Construction Fund - This capital projects fund is used to account for the construction and restoration of the Historic Courthouse/City Hall, financed primarily by grants and donations.

The City reports the following major enterprise funds:

Sewer Fund – This fund accounts for the activities of the sewer department system, which has been under construction and is partially completed and in operation. This fund is financed primarily by user fees.

Water Fund – This fund accounts for the activities of the water department system. This fund is financed primarily by user fees.

Additionally the City of Onaway reports the following fund types:

Courthouse Debt Fund - This debt service fund is used to account for the tax revenues and the payments on the bonds of the Historic Courthouse/City Hall.

Internal Service Fund – This fund accounts for operations that provide machinery and equipment to other departments of the City on a cost-reimbursement basis.

Fiduciary Funds

Tax Collection Fund – This fund accounts for assets held for other governments in an agency capacity. Fiduciary activities are not reported in the government-wide financial statements, in accordance with GASB Statement No. 34.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of demand deposits, cash in savings and money market accounts.

INVESTMENTS

Investments are stated at market, and consist of certificates of deposit with maturity values of three months or longer.

RESTRICTED ASSETS

The revenue bonds of the enterprise funds require amounts be set aside for debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets on the Statement of Net Assets because their use is limited by applicable bond covenants and/or other agreements.

CITY OF ONAWAY

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECEIVABLES AND PAYABLES

All receivables are reported at their gross values. The City does not use an allowance for doubtful accounts. Uncollected delinquent taxes and water and sewer accounts receivable are purchased by the County and placed on the taxpayer/customer's tax bill and management considers them to be fully collectible. Inter-fund receivables and payables arise from inter-fund transactions and are recorded by all funds affected in the period in which transactions are executed.

In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Receivables from other governments represents various shared revenues, grants, and reimbursements from other governments.

PROPERTY TAX REVENUE RECOGNITION

Property tax revenues for the year ended March 31, 2008, reflected in the accompanying financial statements include property taxes levied December 31, 2007. These taxes are due by February 15, 2008, and are added to the County tax rolls after February 28, 2008. The City will receive 100% payment for the delinquent City tax by June, 2008.

The taxable value of the City totaled \$15,245,187, on which ad valorem taxes consisted of 18.7502 mills for the City's operating purposes and .599 mills for debt retirement, raising \$286,454 for operating purposes and \$8,987 for courthouse bond debt retirement. Property taxes are recognized in the fiscal year in which they are levied.

CAPITAL ASSETS

Capital assets which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest expense incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

CITY OF ONAWAY

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CAPITAL ASSETS (CONTINUED)

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings and improvements	10 – 40 years
Equipment and vehicles	5 – 20 years
Water and sewer systems	40 - 50 years
Infrastructure	20 years

COMPENSATED ABSENCES

It is the City's policy to permit employees to accumulate earned but unused sick time benefits, subject to certain limitations. All sick time pay is accrued when incurred in the government-wide statements. A liability for these amounts is reported in the government funds only if they have matured, for example, as a result of employee resignations or retirements.

POST-EMPLOYMENT BENEFITS

Other than the pension benefits described in Note 8, the City does not provide its employees with any other post employment benefits.

LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Issuance costs are deferred and amortized over the life of the bonds using the straight-line method. In the fund financial statements, governmental fund types recognize the face amount of debt issued as other financing sources. Issuance costs are reported as debt service expenditures.

FUND EQUITY

Reserved fund balances for governmental funds indicate that a portion of fund equity which has been legally segregated for specific purposes and/or does not constitute current available spendable resources. Designated fund balance indicates that a portion of fund equity for which the City has made tentative plans. Undesignated fund balance indicates that portion of fund equity, which is available for budgeting in future periods.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain report amounts and disclosures. Accordingly, actual results could differ from those estimates.

CITY OF ONAWAY

NOTES TO FINANCIAL STATEMENTS

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and budgetary accounting

The City follows the following procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the beginning of the fiscal year, the City Manager submits to the City Commission a proposed operating budget for the fiscal year commencing on April 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to March 31, the budget is legally enacted through passage of a resolution.
4. Budgeted amounts are as originally adopted, or as amended by the City Commission. Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP). All annual appropriations lapse at the end of the fiscal year.

NOTE 3: CASH, CASH EQUIVALENTS AND INVESTMENTS

The caption on the statement of net assets and statement of fiduciary net assets relating to cash, cash equivalents and investments represent deposits in varying amounts as follows:

Cash and cash equivalents	\$653,452
Cash and cash equivalents, restricted	55,832
Restricted investments	16,500
	<hr/>
	\$725,784
	<hr/>

The restricted investments amounts consist of certificates of deposit with over a 90 day maturity.

Custodial Credit Risk – Deposits: At year-end the carrying amounts of cash, cash equivalents and investments were classified as to risk as follows:

	Carrying Amount	Bank Balance
Insured (FDIC)	\$114,195	\$138,126
Uninsured – uncollateralized	611,589	635,684
	<hr/>	<hr/>
	\$725,784	\$773,810
	<hr/>	<hr/>

All accounts are in the name of the City and a specific fund. They are recorded in City records at cost. Interest is recorded when deposits mature or is credited to the applicable account. The City may experience significant fluctuations in deposit balances through the year.

CITY OF ONAWAY

NOTES TO FINANCIAL STATEMENTS

NOTE 3: CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk: The City's policy does not quantify the limit on the amount it may invest in any one issuer.

Interest Rate Risk: The City's policy does not limit investor maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Statutory Authority

Michigan Compiled Laws, Section 129.91, authorizes the City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The City is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The City's deposits and investment policy are in accordance with statutory authority.

NOTE 4: CAPITAL ASSETS

Capital asset activity was as follows for the year ended March 31, 2008:

<u>Governmental Activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>(Deletions)</u>	<u>Ending Balance</u>
<u>Being depreciated:</u>				
Buildings	\$1,144,020	\$34,589	\$ -	\$1,178,609
Vehicles-police	58,722	-	(36,970)	21,752
Equipment-furniture and office	6,493	-	-	6,493
Equipment-vehicles and machinery	308,302	-	-	308,302
Infrastructure	138,904	-	-	138,904
Subtotal	1,656,441	34,589	(36,970)	1,654,060
Less accumulated depreciation	(190,628)	(56,945)	36,970	(210,603)
Governmental activities capital assets, net	\$1,465,813	(\$22,356)	(\$ -)	\$1,443,457

CITY OF ONAWAY

NOTES TO FINANCIAL STATEMENTS

NOTE 4: CAPITAL ASSETS (CONTINUED)

<u>Business-type Activities:</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>(Deletions)</u>	<u>Ending Balance</u>
<u>Not being depreciated:</u>				
Land	\$20,574	\$ -	\$ -	\$20,574
Construction in Progress-sewer	2,127,017	-	(2,127,017)	-
<u>Being depreciated:</u>				
Water system	1,324,528	-	-	1,324,528
Sewer system	9,085,345	2,672,922		11,758,267
Water equipment	9,199	-	-	9,199
Sewer equipment	21,473	193,483	-	214,956
Subtotal	12,588,136	2,866,405	(2,127,017)	13,327,524
Less accumulated depreciation	(698,253)	(206,511)	-	(904,764)
Business –type activities capital assets, net	<u>\$11,889,883</u>	<u>\$2,659,894</u>	<u>(\$2,127,017)</u>	<u>\$12,422,760</u>

Depreciation was charged to the City's governmental activities as follows:

General government	\$29,250
Public safety	3,107
Public works	6,945
Capital assets held by the government's Internal service fund are charged to the Various functions based on their usage Of the assets.	<u>17,643</u>
	<u>\$56,945</u>

Depreciation was charged to the City's Business-type activities as follows:

Sewer	\$181,938
Water	<u>24,573</u>
	<u>\$206,511</u>

CITY OF ONAWAY

NOTES TO FINANCIAL STATEMENTS

NOTE 5: INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

The amounts of interfund receivable and payable balances at March 31, 2008 were:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General fund	\$239	\$ -
Fiduciary fund – Tax Collection	-	239
Total	<u>\$239</u>	<u>\$239</u>

All remaining balances generally resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payment between funds are made. All interfund balances outstanding at March 31, 2008, are expected to be repaid within one year.

Interfund transfers consisted of the following for the year ended March 31, 2008:

<u>Fund</u>	<u>Transfer Out</u>	<u>Transfer In</u>
General Fund	\$40,000	\$20,000
Special Revenue-Major Street Fund	29,171	-
Special Revenue-Local Street Fund	-	34,171
Internal Service Fund	20,000	-
Sewer Fund	-	35,000
Total	<u>\$89,171</u>	<u>\$89,171</u>

Transfers are used to (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them, (2) use unrestricted resources collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 6: LONG-TERM DEBT

A summary of long term obligations at March 31, 2008, and transactions related thereto for the year then ended is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Governmental activities:</u>					
\$150,000 USDA 2004 general obligation unlimited tax bonds for construction of courthouse building, payable in annual installments of \$2,000 to \$8,000, bearing interest semi-annually at 4.375%, through September, 2032.	\$144,000	\$ -	(\$2,000)	\$142,000	\$3,000

CITY OF ONAWAY

NOTES TO FINANCIAL STATEMENTS

NOTE 6: LONG-TERM DEBT (CONTINUED)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Internal Service Fund: USDA Act 99 installment contract payable, plow truck— annual payments ranging from \$2,500 to \$4,500, plus interest at 4.125%, through February, 2021.	\$47,500	\$ -	(\$2,500)	\$45,000	\$2,500
Internal Service Fund: USDA Act 99 installment contract payable, plow truck— annual payments ranging from \$1,500 to \$2,500, plus interest at 4.375%, through November, 2021.	27,500	-	1,500	26,000	1,500
Liability for accrued compensated absences	<u>58,383</u>	<u>7,961</u>	<u>-</u>	<u>66,344</u>	<u>-</u>
Total governmental activities long-term debt	<u>277,383</u>	<u>7,961</u>	<u>(6,000)</u>	<u>279,344</u>	<u>7,000</u>
<u>Business-type activities:</u>					
Enterprise Funds:					
1974 USDA Water Revenue Bonds, due in annual installments ranging from \$5,000 to \$15,000 each January 1 through 2013; bearing interest at 5%.	82,000	-	(12,000)	70,000	13,000
\$1,125,000 USDA Sewer System Revenue Bonds, Series A, due in annual installments ranging from \$12,000 to \$56,000 each April 1 and October 1 through 2042; bearing interest at 4.50%.	1,101,000	-	(13,000)	1,088,000	13,000
\$84,000 Sewer System Revenue Bonds, Series B, due in annual installments ranging from \$4,000 to \$12,000 each April 1 and October 1 through 2011; bearing interest at 5.60%.	54,000	-	(10,000)	44,000	10,000

CITY OF ONAWAY

NOTES TO FINANCIAL STATEMENTS

NOTE 6: LONG-TERM DEBT (CONTINUED)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
\$283,000 USDA Sewer System Revenue Bonds, Series C, due in annual installments ranging from \$3,000 to \$16,500 each April 1 and October 1 through 2042; bearing interest at 4.50%.	\$277,000	\$ -	(\$3,000)	\$274,000	\$3,500
\$1,095,000 USDA Sewer System Revenue Bonds, Series D, due in annual installments ranging from \$11,000 to \$62,000 each April 1 and October 1 through 2045; bearing interest at 4.125%.	1,095,000	-	-	1,095,000	11,000
Total business-type activities long-term debt	2,609,000	-	(38,000)	2,571,000	50,500
Total long-term debt	<u>\$2,886,383</u>	<u>\$7,961</u>	<u>(\$44,000)</u>	<u>\$2,850,344</u>	<u>\$57,500</u>

Annual debt service requirements for the above obligations, except for the liability for accrued compensated absences, as follows:

<u>Year Ended March 31,</u>	<u>Governmental Principal</u>	<u>Activities Interest</u>	<u>Business-type Principal</u>	<u>Activities Interest</u>
2009	\$7,000	\$10,641	\$50,500	\$111,545
2010	7,000	10,341	53,500	109,095
2011	7,500	10,041	56,500	106,474
2012	7,500	9,720	58,000	103,743
2013	8,500	9,378	49,000	101,273
2014-2018	49,250	43,121	191,000	478,914
2019-2023	49,250	31,059	239,000	432,293
2024-2028	37,000	13,015	297,500	374,179
2029-2033	40,000	4,374	371,000	301,894
2034-2038	-	-	462,000	211,667
2039-2043	-	-	573,000	99,399
2044-2046	-	-	170,000	10,889
Total	<u>\$213,000</u>	<u>\$141,690</u>	<u>\$2,571,000</u>	<u>\$2,441,365</u>

Interest expense for the year in the statement of activities, governmental activities, was \$10,067, which includes \$278 of amortization of finance costs. Interest expense for business-type activities was \$112,873.

CITY OF ONAWAY

NOTES TO FINANCIAL STATEMENTS

NOTE 7: SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City has issued revenue bonds to finance construction of two enterprise funds, which provide water services and, when completed, sewer services. Because both of these individual funds account separately for each activity, are segments, and are reported as major funds in the fund financial statements, segment disclosures herein are not required.

NOTE 8: PENSION PLAN

Plan Description. The City participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the City, administered by the MERS Retirement Board. Act No. 427 of Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The system provides retirement, disability and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at Municipal Employees Retirement System, 1134 Municipal Way, Lansing, MI 48917 or calling (800) 767-6377.

Funding Policy. The obligation to contribute to and maintain the system for the City employees was established by the City Council. The City is required to contribute at an actuarially determined rate of 10.85% for department heads, of which the City contributes 3.22% and the department heads contribute 7.63%; and 13.24% for the department of public works employees of which the City contributes 3.22% and the public works employees contribute 10.02%. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the City depending on the MERS contribution program adopted by the City.

Annual Pension Cost. For the year ended March 31, 2008 the City's annual pension cost of \$9,291 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2006, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8% investment rate of return, and (b) projected salary increases of 4.5%, compounded annually, attributable to inflation. The actuarial value of assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The City's unfunded actuarial liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2007, the date of the last actuarial valuation, was 28 years.

CITY OF ONAWAY

NOTES TO FINANCIAL STATEMENTS

NOTE 8: PENSION PLAN (CONTINUED)

Three-year trend information and funding progress, as follows:

	Year - ended 2005	December 31, 2006	2007
Annual pension cost (APC)	\$ 17,880	\$ 21,602	\$ 26,139
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
Actuarial value of assets	\$376,769	\$420,635	\$472,131
Actuarial Accrued Liability (AAL)	\$387,238	\$438,336	\$515,639
Unfunded (Excess) AAL	\$10,469	\$17,701	\$43,508
Funded ratio	97%	96%	91.6%
Covered payroll	\$195,553	\$213,856	\$226,579
UAAL (Excess) as a percentage of covered payroll	5%	8%	19%

NOTE 9: JOINT VENTURES

Ambulance Service - The City has entered into an agreement with seven other area units of government to form the Onaway Area Ambulance Service to provide ambulance service to local residents. Each governmental unit appoints the board members and makes supporting annual contributions as determined by the Board. Management and policy decisions are the responsibility of the Ambulance Service Board. For the year ended March 31, 2008, the City's share of expenditures was \$9,667. Financial statements can be obtained through the Onaway Area Ambulance Service at P.O. Box 454, Onaway, MI 49765.

Fire Service - The City has entered into an agreement with two local townships to form the Onaway Area Fire Board to provide fire service to local residents. Each governmental unit appoints the board members. Management and policy decisions are the responsibility of the Fire Board. All expenses are charged to the Fire Board to the participating units according to a formula based on comparative SEV and population. For the year ended March 31, 2008, the City's share of expenditures was \$19,381. Financial statements can be obtained through the Onaway Area Fire Board at P.O. Box 761, Onaway, MI 49765.

NOTE 10: COMMITMENTS

The City has committed approximately \$119,000 on a construction contract to build a new police station.

NOTE 11: CONTINGENCIES

In the normal course of operations, the City receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authorities the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

CITY OF ONAWAY

NOTES TO FINANCIAL STATEMENTS

NOTE 12: RISK MANAGEMENT

The City of Onaway is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries. The City participates in the Michigan Municipal Liability and Property Pool, a public entity risk pool currently operating as a common risk management and insurance program for various municipalities throughout the State of Michigan. Member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts. Claims for commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 13: LEASING ARRANGEMENTS

The City leases space to a public library, the local chamber of commerce and property to a telecommunications company. Leases are renewable annually and require no security deposit. Future minimum lease payments on these leases are \$12,320, annually.

NOTE 14: BEGINNING BALANCE RESTATEMENT

Adjustments were made to beginning net assets in the Statement of Activities and beginning fund balance in the Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds, to exclude the Onaway Area Fire Board (OAFB) as a blended component unit, as it no longer qualifies. The City no longer is the controlling entity and all management and policy decisions are shared equally among the participating members.

The effect on beginning fund balance, as follows:

Fund balance, beginning of year, as previously stated	\$624,401
OAFB, fund balance at March 31, 2007	<u>31,058</u>
Fund balance, beginning of year, as restated	<u><u>\$593,343</u></u>

The effect on the beginning net assets, as follows:

Net assets, beginning of year, as previously stated	\$2,067,198
Components of the OAFB net assets at March 31, 2007:	
Beginning fund balance	(31,058)
Net capital assets	(394,887)
Long-term debt	144,097
Other Liabilities	<u>3,501</u>
Net assets, beginning of year, as restated	<u><u>\$1,788,851</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ONAWAY
BUDGETARY COMPARISON SCHEDULE -
GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2008

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES				
Taxes	\$278,500	\$285,500	\$286,454	\$954
State-shared revenues	131,750	131,750	131,982	232
Licenses and permits	500	500	1,000	500
Charges for services	48,000	49,500	45,661	(3,839)
Fines and forfeits	1,000	1,000	1,490	490
Interest income	500	500	1,380	880
Rents	13,920	13,920	12,320	(1,600)
Donations	6,000	8,200	8,583	383
Sale of capital assets	-	34,500	34,276	(224)
Other	6,000	6,000	5,120	(880)
TOTAL REVENUES	486,170	531,370	528,266	(3,104)
EXPENDITURES:				
LEGISLATIVE - City Council	18,507	20,007	19,636	371
GENERAL GOVERNMENT				
City Administrator	116,565	123,565	123,453	112
Elections	2,100	3,600	3,168	432
Assessor	7,100	7,100	7,060	40
Professional services	19,663	19,163	18,969	194
Board of review	1,287	1,287	1,208	79
City hall and grounds	58,063	75,863	75,125	438
Cemetery	6,357	6,057	3,151	2,906
Promotion	13,230	16,430	15,193	1,237
TOTAL GENERAL GOVERNMENT	224,365	252,765	247,327	5,438
PUBLIC SAFETY				
Police Department	76,355	73,355	69,333	4,022
Fire	19,450	19,450	19,381	69
Ambulance	12,200	9,700	9,667	33
TOTAL PUBLIC SAFETY	108,005	102,505	98,381	4,124
PUBLIC WORKS				
Sidewalks	2,177	4,177	2,796	1,381
Street lighting	14,000	14,000	13,241	759
Sanitation	35,800	35,000	34,535	465
TOTAL PUBLIC WORKS	51,177	53,177	50,572	2,605
RECREATION AND CULTURE-PARKS	29,363	27,663	26,234	1,429
TOTAL EXPENDITURES	431,417	456,117	442,150	13,967
REVENUES OVER EXPENDITURES	54,753	75,253	86,116	10,863
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	21,500	20,000	(1,500)
Operating transfers (out)	(30,000)	(51,500)	(40,000)	11,500
TOTAL OTHER FINANCING SOURCES (USES)	(30,000)	(30,000)	(20,000)	10,000
NET CHANGE IN FUND BALANCE	24,753	45,253	66,116	20,863
FUND BALANCE, BEGINNING OF YEAR,	316,379	316,379	316,379	-
FUND BALANCE, END OF YEAR	\$341,132	\$361,632	\$382,495	\$20,863

The accompanying notes are an integral part of these financial statements.

CITY OF ONAWAY
BUDGETARY COMPARISON SCHEDULE -
MAJOR STREET FUND
FOR THE YEAR ENDED MARCH 31, 2008

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL AMENDED BUDGET POSITIVE (NEGATIVE)
REVENUES:				
State-shared revenue	\$62,000	\$62,000	\$58,074	(\$3,926)
Interest income	500	500	860	360
TOTAL REVENUES	62,500	62,500	58,934	(3,566)
EXPENDITURES:				
Public works - Highways and Streets:				
Routine maintenance	92,899	92,899	60,951	31,948
Traffic services	2,139	2,139	1,579	560
Winter maintenance	11,692	16,692	16,536	156
Administration	6,200	6,200	5,834	366
TOTAL EXPENDITURES	112,930	117,930	84,900	33,030
REVENUES OVER (UNDER) EXPENDITURES	(50,430)	(55,430)	(25,966)	29,464
OTHER FINANCING (USES)				
Operating transfer (out)	(31,000)	(31,000)	(29,171)	1,829
NET CHANGE IN FUND BALANCE	(81,430)	(86,430)	(55,137)	31,293
FUND BALANCE, BEGINNING OF YEAR	141,527	141,527	141,527	-
FUND BALANCE, END OF YEAR	\$60,097	\$55,097	\$86,390	\$31,293

The accompanying notes are an integral part of these financial statements.

**CITY OF ONAWAY
BUDGETARY COMPARISON SCHEDULE -
LOCAL STREET FUND
FOR THE YEAR ENDED MARCH 31, 2008**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL AMENDED BUDGET POSITIVE (NEGATIVE)
REVENUES:				
State-shared revenue	\$32,000	\$32,000	\$31,237	(\$763)
Interest income	200	200	134	(66)
TOTAL REVENUES	32,200	32,200	31,371	(829)
EXPENDITURES:				
Public works - Highways and Streets:				
Routine maintenance	68,052	59,552	54,621	4,931
Traffic services	1,589	2,089	1,987	102
Winter maintenance	15,768	37,768	36,817	951
Administration	3,200	3,200	3,137	63
TOTAL EXPENDITURES	88,609	102,609	96,562	6,047
REVENUES OVER (UNDER) EXPENDITURES	(56,409)	(70,409)	(65,191)	5,218
OTHER FINANCING SOURCES				
Operating transfer in	31,000	42,500	34,171	(8,329)
NET CHANGE IN FUND BALANCE	(25,409)	(27,909)	(31,020)	(3,111)
FUND BALANCE, BEGINNING OF YEAR	36,269	36,269	36,269	-
FUND BALANCE, END OF YEAR	\$10,860	\$8,360	\$5,249	(\$3,111)

The accompanying notes are an integral part of these financial statements.

OTHER SUPPLEMENTARY INFORMATION

	DATE OF ISSUE	ORIGINAL AMOUNT OF ISSUE	INTEREST RATE
GOVERNMENTAL ACTIVITIES:			
2004 Courthouse General Obligation Unlimited			
Tax Bonds			
Payments due:	6/15/04	\$150,000	4.375%
September 1 and March 1			4.375
			4.375
			4.375
			4.375
			4.375
			4.375
			4.375
			4.375
			4.375
			4.375
			4.375
			4.375
			4.375
			4.375
			4.375
			4.375
			4.375
			4.375
			4.375
			4.375
			4.375
			6.00
TOTAL 2004 COURTHOUSE GENERAL OBLIGATION UNLIMITED TAX BONDS			

(Continued)

DATE OF MATURITY	AMOUNT OF ANNUAL MATURITY	AMOUNT OUTSTANDING MARCH 31, 2008
9/01/07	\$2,000	\$ -
9/01/08	3,000	3,000
9/01/09	3,000	3,000
9/01/10	3,000	3,000
9/01/11	3,000	3,000
9/01/12	4,000	4,000
9/01/13	4,000	4,000
9/01/14	4,000	4,000
9/01/15	4,000	4,000
9/01/16	5,000	5,000
9/01/17	5,000	5,000
9/01/18	5,000	5,000
9/01/19	5,000	5,000
9/01/20	5,000	5,000
9/01/21	6,000	6,000
9/01/22	6,000	6,000
9/01/23	6,000	6,000
9/01/24	7,000	7,000
9/01/25	8,000	8,000
9/01/26	8,000	8,000
9/01/27	8,000	8,000
9/01/28	8,000	8,000
9/01/29	8,000	8,000
9/01/30	8,000	8,000
9/01/31	8,000	8,000
9/01/32	8,000	8,000
		<u>\$142,000</u>

CITY OF ONAWAY
SCHEDULE OF BONDED INDEBTEDNESS
MARCH 31, 2008

	DATE OF ISSUE	ORIGINAL AMOUNT OF ISSUE	INTEREST RATE
BUSINESS-TYPE ACTIVITIES:			
1974 Water Revenue Bonds			
Payments due:			
January 1 and July 1	1/07/74	\$275,000	5.0%
			5.0
			5.0
			5.0
			5.0
			5.0
TOTAL WATER REVENUE BONDED INDEBTEDNESS			
2003 Sanitary Sewer System Revenue Bond, Series B			
Payments due:			
April 1 and October 1	9/16/2002	\$84,000	5.60%
			5.60
			5.60
			5.60
TOTAL 2003 SANITARY SEWER SYSTEM REVENUE BOND, SERIES B			

(Continued)

<u>DATE OF MATURITY</u>	<u>AMOUNT OF ANNUAL MATURITY</u>	<u>AMOUNT OUTSTANDING MARCH 31, 2008</u>
1/01/08	\$12,000	\$ -
1/01/09	13,000	13,000
1/01/10	14,000	14,000
1/01/11	14,000	14,000
1/01/12	14,000	14,000
1/01/13	15,000	15,000
		<u>70,000</u>
4/01/08	\$10,000	\$10,000
4/01/09	10,000	10,000
4/01/10	12,000	12,000
4/01/11	12,000	12,000
		<u>44,000</u>

CITY OF ONAWAY

SCHEDULE OF BONDED INDEBTEDNESS

MARCH 31, 2008

[illegible]**TOTAL 2003 SANITARY SEWER SYSTEM REVENUE BOND, SERIES A**

(Continued)

DATE OF MATURITY	AMOUNT OF ANNUAL MATURITY	AMOUNT OUTSTANDING MARCH 31, 2008
4/01/08	\$13,000	\$13,000
4/01/19	14,000	14,000
4/01/10	15,000	15,000
4/01/11	15,000	15,000
4/01/12	16,000	16,000
4/01/13	17,000	17,000
4/01/14	17,000	17,000
4/01/15	18,000	18,000
4/01/16	19,000	19,000
4/01/17	20,000	20,000
4/01/18	21,000	21,000
4/01/19	22,000	22,000
4/01/20	23,000	23,000
4/01/21	24,000	24,000
4/01/22	25,000	25,000
4/01/23	26,000	26,000
4/01/24	27,000	27,000
4/01/25	28,000	28,000
4/01/26	30,000	30,000
4/01/27	31,000	31,000
4/01/28	32,000	32,000
4/01/29	34,000	34,000
4/01/30	35,000	35,000
4/01/31	37,000	37,000
4/01/32	39,000	39,000
4/01/33	40,000	40,000
4/01/34	42,000	42,000
4/01/35	44,000	44,000
4/01/36	46,000	46,000
4/01/37	48,000	48,000
4/01/38	50,000	50,000
4/01/39	52,000	52,000
4/01/40	55,000	55,000
4/01/41	57,000	57,000
4/01/42	56,000	56,000
		<u>1,088,000</u>

MARCH 31, 2008

TOTAL 2003 SANITARY SEWER SYSTEM REVENUE BOND, SERIES C

- 39 -

DATE OF MATURITY	AMOUNT OF ANNUAL MATURITY	AMOUNT OUTSTANDING MARCH 31, 2008
4/01/08	\$3,500	\$3,500
4/01/19	3,500	3,500
4/01/10	3,500	3,500
4/01/11	4,000	4,000
4/01/12	4,000	4,000
4/01/13	4,000	4,000
4/01/14	4,500	4,500
4/01/15	4,500	4,500
4/01/16	5,000	5,000
4/01/17	5,000	5,000
4/01/18	5,000	5,000
4/01/19	5,500	5,500
4/01/20	5,500	5,500
4/01/21	6,000	6,000
4/01/22	6,000	6,000
4/01/23	6,500	6,500
4/01/24	7,000	7,000
4/01/25	7,000	7,000
4/01/26	7,500	7,500
4/01/27	7,500	7,500
4/01/28	8,000	8,000
4/01/29	8,500	8,500
4/01/30	9,000	9,000
4/01/31	9,000	9,000
4/01/32	9,500	9,500
4/01/33	10,000	10,000
4/01/34	10,500	10,500
4/01/35	11,000	11,000
4/01/36	11,500	11,500
4/01/37	12,000	12,000
4/01/38	12,500	12,500
4/01/39	13,000	13,000
4/01/40	13,500	13,500
4/01/41	14,500	14,500
4/01/42	16,500	16,500
		274,000

**CITY OF ONAWAY
SCHEDULE OF BONDED INDEBTEDNESS
MARCH 31, 2008**

[illegible]

TOTAL 2005 SANITARY SEWER SYSTEM REVENUE BOND, SERIES D

TOTAL BUSINESS-TYPE ACTIVITIES BONDED INDEBTEDNESS:

DATE OF MATURITY	AMOUNT OF ANNUAL MATURITY	AMOUNT OUTSTANDING MARCH 31, 2008
4/01/09	\$11,000	\$11,000
4/01/10	12,000	12,000
4/01/10	12,000	12,000
4/01/11	13,000	13,000
4/01/12	14,000	14,000
4/01/13	14,000	14,000
4/01/14	15,000	15,000
4/01/15	15,000	15,000
4/01/16	16,000	16,000
4/01/17	17,000	17,000
4/01/18	18,000	18,000
4/01/19	18,000	18,000
4/01/20	19,000	19,000
4/01/21	20,000	20,000
4/01/22	21,000	21,000
4/01/23	22,000	22,000
4/01/24	23,000	23,000
4/01/25	24,000	24,000
4/01/26	25,000	25,000
4/01/27	26,000	26,000
4/01/28	27,000	27,000
4/01/29	29,000	29,000
4/01/30	30,000	30,000
4/01/31	31,000	31,000
4/01/32	33,000	33,000
4/01/33	34,000	34,000
4/01/34	36,000	36,000
4/01/35	37,000	37,000
4/01/36	39,000	39,000
4/01/37	41,000	41,000
4/01/38	43,000	43,000
4/01/39	44,000	44,000
4/01/40	46,000	46,000
4/01/41	49,000	49,000
4/01/42	51,000	51,000
4/01/43	53,000	53,000
4/01/44	55,000	55,000
4/01/45	62,000	62,000
		<u>1,095,000</u>
		<u>\$2,571,000</u>

CITY OF ONAWAY
SCHEDULE OF CONTRACTUAL INDEBTEDNESS
MARCH 31, 2008

	INTEREST RATE	ACT 99 INSTALLMENT CONTRACTS PAYABLE APRIL 1, 2007	ACT 99 INSTALLMENT CONTRACT ISSUED
GOVERNMENTAL ACTIVITIES:			
International Truck	4.125%	\$47,500	\$ -
International Truck	4.375%	<u>27,500</u>	<u>-</u>
TOTAL INSTALLMENT CONTRACTS PAYABLE		<u><u>\$75,000</u></u>	<u><u>\$ -</u></u>

ACT 99
INSTALLMENT
CONTRACTS
PAYABLE
MARCH 31, 2008

<u>PAYMENTS</u>	
\$2,500	\$45,000
<u>1,500</u>	<u>26,000</u>
<u>\$4,000</u>	<u>\$71,000</u>

FEDERAL AWARDS SUPPLEMENTARY INFORMATION

CITY OF ONAWAY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED MARCH 31, 2008

FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	PROGRAM OR AWARD GRANT NUMBER	CURRENT YEAR RECEIPTS	CURRENT YEAR EXPENDITURES
U.S DEPARTMENT OF AGRICULTURE				
Direct Programs:				
Rural Development, Rural Utilities Service, Water and Waste Disposal Systems for Rural Communities, Other Federal Assistance, Sanitary Sewer System Grant	10.760	N/A	\$739,306	\$739,306
Rural Development Administration Community Facilities Loans and Grants Community Facilities Grant	10.766	N/A	14,720	14,720
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$754,026	\$754,026

See Accompanying Notes to Schedule of Expenditures of Federal Awards.

CITY OF ONAWAY
SCHEDULE OF EXPENDITURES OF NON-FEDERAL AWARDS
FOR THE YEAR ENDED MARCH 31, 2008

<u>GRANTOR/PROGRAM TITLE</u>	<u>PROGRAM OR AWARD GRANT NUMBER</u>	<u>CURRENT YEAR RECEIPTS</u>	<u>CURRENT YEAR EXPENDITURES</u>
Presque Isle County			
Onaway Wastewater Collection and Treatment System			
Sewer laterals/connections	N/A	<u>\$3,392</u>	<u>\$3,392</u>

CITY OF ONAWAY
NOTES TO SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
Year Ended March 31, 2008

Note 1 - Reconciliation of Reported Expenditures and Revenues to Financial Statement Totals

The following is a reconciliation of total federal expenditures and revenues reported on the Schedule of Expenditures of Federal Awards to the federal expenditures and revenues administered by the City.

Reconciliation of financial statements to SEFA Current Year Receipts

Recorded in:

Proprietary fund (sewer) as federal revenues	\$739,306
Governmental funds (Courthouse Construction Fund) as federal revenue	14,720
	<hr/>
Total Receipts per Schedule of Expenditures of Federal Awards (SEFA)	<u>\$754,026</u>

Reconciliation of financial statements to SEFA Current Year Expenditures

Proprietary Funds - Enterprise Funds:

Sewer:

Recorded as construction -sewer	\$545,905
Recorded as equipment-sewer	193,483
Less-non federal amount, City contribution	(82)
	<hr/>
Total Federal Expenditures, Enterprise Fund – Sewer	<u>739,306</u>

Courthouse Construction Fund:

Recorded as capital outlay	34,589
Less-non federal amount, City contribution	(19,869)
	<hr/>
Total Federal Expenditures, Courthouse Construction Fund	<u>14,720</u>

Total Expenditures per Schedule of Expenditures of Federal Awards (SEFA)	<u>\$754,026</u>
--	-------------------------

Note 2-Basis of Accounting

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Onaway and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 3 - Loans Outstanding

The City of Onaway has outstanding federal loan balances in the amount of \$2,740,000 at March 31, 2008, as shown at Note 6 in the accompanying notes to the financial statements.

Note 4 -Subrecipient's

The City of Onaway provided no federal award dollars to a subrecipient during the fiscal year.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS***

December 24, 2008

Honorable Mayor and Members
of the City Commission
City of Onaway
Onaway, Michigan

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the ***City of Onaway, Onaway, Michigan***, as of and for the year ended March 31, 2008, which collectively comprise the ***City of Onaway's*** basic financial statements and have issued my report thereon dated December 24, 2008. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the ***City of Onaway's*** internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the ***City of Onaway's*** internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the ***City of Onaway's*** internal control over financial reporting period.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified a certain deficiency in internal control over financial reporting that I consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the *City of Onaway's* ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the *City of Onaway's* financial statements that is more than inconsequential will not be prevented or detected by the *City of Onaway's* internal control. I consider the deficiency described in Finding 2008-A of the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the *City of Onaway's* internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, I consider Finding 2008-1 to be a material weakness.

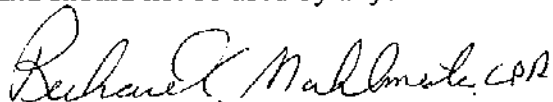
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the *City of Onaway's* financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

I noted certain matters that I reported to management of the *City of Onaway* in a separate letter dated December 24, 2008.

The *City of Onaway's* response to the finding identified in my audit is described in the accompanying schedule of findings and questioned costs. I did not audit the *City of Onaway's* response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of management, members of the commission, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Richard E. Mahlmeister, CPA
Richard E. Mahlmeister, CPA, PC

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

December 24, 2008

Honorable Mayor and Members
of the City Commission
City of Onaway
Onaway, Michigan

Compliance

I have audited the compliance of the *City of Onaway, Onaway, Michigan*, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the year ended March 31, 2008. The *City of Onaway's* major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the *City of Onaway's* management. My responsibility is to express an opinion on the *City of Onaway's* compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the *City of Onaway's* compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. The audit does not provide a legal determination of the *City of Onaway's* compliance with those requirements.

In my opinion, the *City of Onaway, Onaway, Michigan*, complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended March 31, 2008.

Internal Control Over Compliance

The management of the **City of Onaway**, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered the **City of Onaway's** internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the **City of Onaway's** internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program than is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

The **City of Onaway's** responses to the finding identified in my audit are described in the accompanying schedule of findings and questioned costs. I did not audit the **City of Onaway's** response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of management, members of the commission, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Richard E. Mahlmeister, CPA
Richard E. Mahlmeister, CPA, PC

CITY OF ONAWAY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended March 31, 2008

SECTION I - SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements.
2. One control deficiency disclosed during the audit of the financial statements is reported in the accompanying schedule of findings and questioned costs. The significant deficiency is considered a material weakness.
3. No instances of noncompliance material to the financial statements were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported.
5. The auditor's report on compliance for the major federal award programs expresses an unqualified opinion on the major federal program.
6. There are no findings relative to the major federal award programs that are required to be reported under Section 510 (a) of OMB Circular A-133.
7. Identification of major programs:

<u>CFDA#</u>	<u>Name of Federal Program or Cluster</u>
10.760	USDA Rural Development, Rural Utilities Service

8. The threshold used to distinguish between a Type A and B program was \$300,000.
9. The City of Onaway did not qualify as a low-risk auditee.

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2008-1: Management does not have procedures in place to prepare financial statements in accordance with U.S. generally accepted accounting principles, and to present required financial statement disclosures.

Criteria: All governmental units are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is the responsibility of the City's management. The preparation of the financial statements in accordance with GAAP requires internal controls over both (1) recording, processing and summarizing account data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements and the related notes to the financial statements.

Condition: As is the case with many smaller and medium-sized entities, the City has historically relied on its independent external auditor to assist in the preparation of the government-wide financial statements and notes to the financial statements as part of its external financial reporting process. Accordingly, the City's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditor, who cannot, by definition, be considered part of the City's internal control.

Cause: This condition was caused by the City's determination that it is not cost effective to incur the time and expense, for management to acquire the expertise necessary to prepare its annual financial statements.

Effect: As a result of this condition, the City lacks internal controls over preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditor for assistance with this task.

Response: The City plans to continue relying on its external auditor to prepare the financial statements.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

1. No federal award findings or questioned costs are reported.

SECTION IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

1. There were no prior year audit findings or questioned costs reported.

RICHARD E. MAHLMEISTER



CERTIFIED PUBLIC ACCOUNTANT, P.C.

Member:

American Institute of Certified Public Accountants

Michigan Association of Certified Public Accountants

December 24, 2008

**COMMUNICATION OF SIGNIFICANT DEFICIENCIES AND MATERIAL
WEAKNESSES IN INTERNAL CONTROL AND OTHER MATTERS**

Honorable Mayor and Members
of the City Commission
City of Onaway
Onaway, Michigan

In planning and performing my audit of the financial statements of *City of Onaway* as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, I considered City of Onaway's internal control over financial reporting (internal control) as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Onaway's internal control. My consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented, but it did not include procedures to test the operating effectiveness of controls, and accordingly, was not directed to discovering significant deficiencies in internal control. Accordingly, I do not express an opinion on the effectiveness of City of Onaway's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, I identified a certain deficiency in internal control that I consider to be both a significant deficiency and material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

I consider the following deficiency to be a significant deficiency and a material weakness in internal control:

Financial Statement Preparation

City of Onaway does not have procedures in place to prepare financial statements in accordance with U.S. generally accepted accounting principles, and to present required financial statement disclosures.

However, small organizations with limited resources and personnel inherently have difficulty in establishing and maintaining effective internal accounting controls related to the preparation and review of the formal year-end financial statements.

Thank you for the opportunity to serve *City of Onaway*. Best wishes in the next year.

Sincerely,



Richard E. Mahlmeister, C.P.A.
Richard E. Mahlmeister, C.P.A., P.C.

December 24, 2008

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Honorable Mayor and Members
of the City Commission
City of Onaway
Onaway, Michigan

I have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of City of Onaway, and have issued my report thereon dated December 24, 2008. Professional standards require that I provide you with the following information related to my audit.

My Responsibility under U.S. Generally Accepted Auditing Standards

As stated in my engagement letter dated May 21, 2008, my responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. My audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

I performed the audit according to the planned scope and timing previously communicated to you on May 21, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of Onaway are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. I noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was determining depreciation expense. I evaluated the key factors and assumptions used to develop the estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

I encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require me to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to my satisfaction, that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of my audit.

Management Representations

I have requested certain representations from management that are included in the management representation letter dated December 24, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with me to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

Auditing standards require me to report to you significant audit findings or issues. Following are the significant findings I noted during my audit:

- City of Onaway does not have procedures in place to prepare financial statements in accordance with U.S. generally accepted accounting principles, and to present required financial statement disclosures. However, small organizations with limited resources and personnel inherently have difficulty in establishing and maintaining effective internal accounting controls related to the preparation and review of the formal year-end financial statements.

I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditor. However, these discussions occurred in the normal course of our professional relationship and my responses were not a condition to my retention.

This information is intended solely for the use of the Board and management of City of Onaway and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in dark ink, appearing to read "Richard E. Mahlmeister", followed by a small, stylized mark that looks like "P.C." or a similar abbreviation.

Richard E. Mahlmeister, C.P.A.
Richard E. Mahlmeister, C.P.A., P.C.